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SUBJECT: FRANCE - BUSINESS UPDATE

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1. (U) This message contains a series of updates on French trade and business news.

#### U.S. Investment in France is Up

1. (SBU) France's President of the French Agency for International Investment, Clara Gaymard, recently told a French business daily that U.S. investment was up 24 percent last year, ahead of all other foreign investment in France. She added that the Franco-American economic and trade bilateral relationship had not suffered from France's position on Iraq. She concluded that although the "tone of the relationship is not improving," the economic relationship is "very good." Gaymard further agreed with her Government's stance on "economic patriotism," claiming that it was not particular to France, and that it was an element of national pride in all countries except France.

#### Redefining France's "Attractiveness"

2. (U) Gaymard also presented a new scoreboard of the attractiveness on France, which she considers more relevant than existing studies, which are based on criteria of concern to economists rather than foreign investors. As a result, the Invest in France Scoreboard has included categories in which France excels, such as the number of foreign students having received university education in France and penetration of broadband Internet. France leads the EU in both areas but remains behind the U.S., Japan and Finland. (Note: For more details on the scoreboard, and in English, go to <http://www.investinfrance.org/France/?l=en>. End Note).

#### French Efforts to Select Foreign Students

3. (SBU) France is proposing more overseas staff and a more rigorous selection process for foreign students wishing to study in France. As part of a package of tighter immigration laws to be presented to Parliament for approval early next year, beefed up staff in French Embassies will screen students before their arrival in France and select the best of them according to four additional criteria: their targeted research/study plan, their resume, their linguistic skills, and the state of bilateral relations with the country of origin of the student. With 50,000 new foreign students every year, France is currently the third global destination of foreign students, behind the U.S. and the United Kingdom.

#### China's hard bargaining with Airbus

4. (SBU) The Chinese apparently leaned hard on the French to obtain local assembly as part of their recent "historic" USD 9.7 billion Airbus deal -- the biggest single order from China. In the run-up to Chinese Prime Minister Wen Jiabao's four-day visit to France December 4-7, Chinese negotiators pushed hard to associate a "precondition" to the order, i.e. that the European aircraft maker investigate the feasibility of opening an assembly plant in China. Reflecting the ambivalent mood in France with regards to this deal, the official French news service AFP opined that any big deals with China "come with strings attached, namely the transfer of know how and technology to their country so it can be a heavy manufacturing powerhouse in the future." This analysis was further substantiated when the Chinese Prime Minister told the French elite Polytechnic School that France should "offer more attractive conditions on technology transfer as well as price" if French nuclear group Areva is to win a massive contract to build third-generation nuclear reactors in China. The big contracts have allowed France to become China's second largest technological cooperation partner in the EU and its third largest source of direct investment, although France remains far behind the UK and Germany. In terms of bilateral trade, France's share of the Chinese market has dropped from 2.7 percent five years ago to 1.4 percent. France is China's fourth EU trading partner and 15th worldwide.

#### Foreign Investment Offsets Outsourcing

15. (U) A recent study by the Assembly of French Chambers of Commerce and Industry (ACFCI) shows that a majority of the 100 middle-sized French companies polled moved some operations to East European countries, China, and Maghreb countries, and that most companies noticed an immediate improvement in their financial situation. The study, entitled "Fear of outsourcing is not a solution" shows that outsourcing has cost 10,000 jobs in France in 2004; however, foreign investment has led to the creation of 30,000 jobs.

#### Pharmaceutical Industry angry at rise in tax

16. (U) The recently adopted French Social Security Financing bill for 2006 means bad news for the pharmaceutical industry in France. To bring the Social Security deficit down from an estimated 11.9 billion euros in 2005, to 8.9 billion euros in 2006, the new Social Security Finance bill calls for a rise on an "exceptional basis" from 0.6 to 1.96 percent in the tax on the pharmaceutical companies' turnover, despite protests from the industry and the Embassy. (Note: this "exceptional" tax has been in existence for three years, and has risen every year.)

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